

TOWN OF PAOLI, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

TOWN OF PAOLI, OKLAHOMA
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2013

	Page
INTRODUCTORY SECTION:	
Table of Contents	i
FINANCIAL SECTION:	
Independent Auditor's Report	1-2
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	3-4
Government-Wide Financial Statements:	5
Statement of Net Position - Modified Cash Basis	6
Statement of Activities - Modified Cash Basis	7
Fund Financial Statements:	8
Balance Sheet - Modified Cash Basis - Governmental Funds	9
Statement of Revenues, Expenditures and Changes in Fund Balances - Modified Cash Basis - Governmental Funds	10
Statement of Net Position - Modified Cash Basis - Proprietary Fund	11
Statement of Revenues, Expenses and Changes in Net Position - Modified Cash Basis - Proprietary Fund	12
Statement of Cash Flows - Modified Cash Basis - Proprietary Fund	13
Notes to Financial Statements	14-21
Supplementary Information:	22
Schedule of Federal Financial Awards	23
Budgetary Comparison Schedule - Modified Cash Basis - General Fund	24-25
Notes to Budgetary Comparison Schedule	26

Kimberlye R. Mayer, CPA, P.C.

735 West Doolin

Blackwell, OK 74631

(580) 363-1453

Fax (580) 363-0068

Independent Auditor's Report

The Board of Trustees
Town of Paoli, Oklahoma

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Paoli, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Town's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we express no such an opinion. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above, present fairly, in all material respects, the modified cash basis financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Paoli, Oklahoma as of June 30, 2013, and the changes in its modified cash basis financial position and, where applicable, its cash flows for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

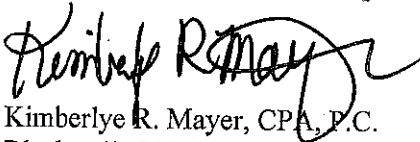
We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental information is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole on the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated January 18, 2014 on our consideration of the Town of Paoli, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



Kimberly R. Mayer, CPA, P.C.
Blackwell, Oklahoma
January 18, 2014

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

The Board of Trustees
Town of Paoli, Oklahoma

We have audited the financial statements of Town of Paoli, Oklahoma as of and for the year ended June 30, 2013 and have issued our report thereon dated January 18, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements were prepared on the modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Town of Paoli, Oklahoma's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Paoli, Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Paoli, Oklahoma's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of control deficiencies, in internal control that there is reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

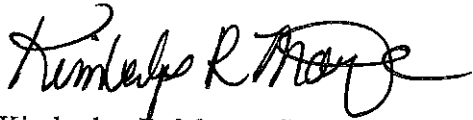
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Paoli, Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and

accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "Kimberley R. Mayer". The signature is fluid and cursive, with a large loop at the end.

Kimberlye R. Mayer, CPA, P.C.

Blackwell, Oklahoma

January 18, 2014

GOVERNMENT-WIDE FINANCIAL STATEMENTS

TOWN OF PAOLI
STATEMENT OF NET POSITION
MODIFIED CASH BASIS
JUNE 30, 2013

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Total
Assets:			
Cash and cash equivalents	\$ 43,159	\$ 168,154	\$ 211,313
Certificates of deposit	20,287		20,287
Due from other funds	23		23
Capital assets (Note 2):			
Land	5,000	4,134	9,134
Capital assets (net of accumulated depreciation)	275,406	526,993	802,399
Work in progress		211,295	211,295
Total Assets	<u>343,875</u>	<u>910,576</u>	<u>1,254,451</u>
Liabilities:			
Due to other funds		23	23
Payroll withholding	1,413	868	2,281
Customer meter deposits		14,082	14,082
Notes payable, current portion (Note 3)		10,380	10,380
Notes payable, long-term (Note 3)		1,902	1,902
Total Liabilities	<u>1,413</u>	<u>27,255</u>	<u>28,668</u>
Net Position:			
Net investment in capital assets	280,406	730,140	1,010,546
Restricted for:			
Cemetery care	30,662		30,662
Unrestricted	31,394	153,181	184,575
Total Net Position	<u>\$ 342,462</u>	<u>\$ 883,321</u>	<u>\$ 1,225,783</u>

The accompanying report and notes are an integral part of these financial statements.

TOWN OF PAOLI
STATEMENT OF ACTIVITIES
MODIFIED CASH BASIS
YEAR ENDED JUNE 30, 2013

Function/Program	Program Revenue			Net (Expense) Revenue & Changes in Net Assets		
	Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities
Governmental activities:						
General Government	\$ 26,802	\$ 42,223	\$ 2,146	\$	\$ (24,656)	\$ (24,656)
Public Safety	106,107	1,454	4,484		(59,400)	(59,400)
Cemetery	8,530		1,664		(5,412)	(5,412)
Streets	12,748				(12,748)	(12,748)
Culture and Recreation	1,024				(1,024)	(1,024)
Total government activities	155,211	43,677	8,294		(103,240)	(103,240)
Business-type activities:						
Water	82,378	78,123		107,334		103,079
Sewer	54,356	53,563				(793)
Sanitation	36,873	48,539				11,666
Total business-type activities	173,607	180,225		107,334		113,952
Total government	\$ 328,818	\$ 223,902	\$ 8,294	\$ 107,334	\$ (103,240)	\$ 10,712
General Revenues:						
Taxes:						
Sales taxes					45,416	45,416
Franchise taxes					15,553	15,553
Gas and vehicle taxes					5,374	5,374
Other taxes					14,266	14,266
Investment income					268	745
Miscellaneous					1,670	8,951
Total general revenues					82,547	9,428
Change in net position before transfers					(20,693)	123,380
Transfers in (out)					(6,992)	6,992
Change in net position					(27,685)	130,372
Net position - beginning of year					370,147	752,949
Net position - end of year					\$ 342,462	\$ 883,321
						\$ 1,225,783

The accompanying report and notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

TOWN OF PAOLI
BALANCE SHEET
MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2013

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets:			
Cash and cash equivalents	\$ 39,995	\$ 3,164	\$ 43,159
Certificates of deposit		20,287	20,287
Due from other funds	23		23
Total Assets	<u>40,018</u>	<u>23,451</u>	<u>63,469</u>
Liabilities and Fund Balance:			
Liabilities:			
Payroll withholding	1,413		1,413
Due to other funds			
Total Liabilities	<u>1,413</u>	<u> </u>	<u>1,413</u>
Fund balances:			
Nonspendable			
Restricted		23,451	23,451
Committed			
Assigned			
Unassigned	38,605		38,605
Total Fund Balances	<u>\$ 38,605</u>	<u>\$ 23,451</u>	<u>\$ 62,056</u>

RECONCILIATION TO STATEMENT OF NET POSITION:

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities of \$523,646, net of accumulated depreciation of \$243,240, are not financial resources and, therefore, are not reported in the funds.

280,406

Net position of governmental activities

\$ 342,462

The accompanying report and notes are an integral part of these financial statements.

TOWN OF PAOLI
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 80,609	\$	\$ 80,609
Charges for services	1,292	162	1,454
Fines	42,223		42,223
Investment income	161	107	268
Grants and donations	8,294		8,294
Miscellaneous	1,670		1,670
Total Revenues	<u>134,249</u>	<u>269</u>	<u>134,518</u>
Expenditures:			
Current:			
General Government	24,108		24,108
Police Department	80,010		80,010
Fire Department	11,847		11,847
Streets	11,240		11,240
Cultural and Recreation	1,024		1,024
Cemetery	8,530		8,530
Total Expenditures	<u>136,759</u>	<u></u>	<u>136,759</u>
Excess (deficiencies) of revenues over expenditures	(2,510)	269	(2,241)
Other Financing Sources (Uses):			
Transfers in (out)	<u>(6,992)</u>	<u></u>	<u>(6,992)</u>
Net changes in fund balances	(9,502)	269	(9,233)
Fund balances, beginning of year	<u>48,107</u>	<u>23,182</u>	<u>71,289</u>
Fund balances, end of year	<u>\$ 38,605</u>	<u>\$ 23,451</u>	62,056
RECONCILIATION TO THE STATEMENT OF ACTIVITIES:			
Net changes in fund balances - total governmental funds			\$ (2,241)
Amounts reported for governmental activities in the Statement of Activities are different because:			
Capital asset purchases capitalized			
Depreciation expense			<u>(18,452)</u>
Change in Net Assets of Governmental Activities			<u>\$ (20,693)</u>

The accompanying report and notes are an integral part of these financial statements.

TOWN OF PAOLI
STATEMENT OF NET POSITION
MODIFIED CASH BASIS
PROPRIETARY FUND
JUNE 30, 2013

	Public Works Authority Enterprise Fund
Assets:	
Current Assets:	
Cash and cash equivalents	\$ 168,154
Due from other funds	
Total Current Assets	<u>168,154</u>
Noncurrent Assets:	
Land	4,134
Other capital assets, net of accumulated depreciation (Note 2)	526,993
Work in progress	211,295
Total Noncurrent Assets	<u>742,422</u>
Total Assets	910,576
Liabilities:	
Current Liabilities:	
Due to other funds	23
Payroll withholdings	868
Notes payable, current portion (Note 3)	10,380
Total Current Liabilities	<u>11,271</u>
Noncurrent liabilities:	
Customer meter deposits	14,082
Notes payable, non-current portion (Note 3)	1,902
Total Noncurrent Liabilities	<u>15,984</u>
Total Liabilities	<u>27,255</u>
Net Position:	
Net investment in capital assets	730,140
Restricted for debt service	
Unrestricted	153,181
Total Net Position	<u>\$ 883,321</u>

The accompanying report and notes are an integral part of these financial statements.

TOWN OF PAOLI
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2013

	Public Works Authority Enterprise Fund
Operating Revenues:	
Charges for services:	
Water	\$ 78,123
Sewer	53,563
Sanitation	48,539
Grants	107,334
Other income	8,951
Total Operating Revenues	<u>296,510</u>
Operating Expenses:	
Water Department	57,098
Sewer Department	47,407
Sanitation Department	31,718
Depreciation	35,942
Total Operating Costs	<u>172,165</u>
Operating income (loss)	124,345
Non-Operating Revenues (Expenses):	
Interest income	477
Interest expense	(1,442)
Total Non-Operating Revenues (Expenses)	<u>(965)</u>
Changes in Net Position	123,380
Transfers	6,992
Net Position, beginning of year	<u>752,949</u>
Net Position, end of year	<u><u>\$ 883,321</u></u>

The accompanying report and notes are an integral part of these financial statements.

TOWN OF PAOLI
STATEMENT OF CASH FLOWS
MODIFIED CASH BASIS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2013

Cash Flows From Operating Activities:	
Cash received from customers	\$ 189,176
Other operating cash receipts	107,334
Cash payments to suppliers for goods and services	(38,279)
Cash payments to employees	(96,695)
Net cash provided (used) by Operating Activities	<u>161,536</u>
Cash Flows From Non-Capital Financing Activities:	
Cash Flows From Capital And Related Financing Activities:	
Transfers in (out)	6,992
Acquisition and construction of capital assets	(123,840)
Principle payments	(25,545)
Interest payments	(1,442)
Net cash provided (used) by Financing Activities	<u>(143,835)</u>
Cash Flows From Investing Activities:	
Interest on cash and investments	477
Change in due to (from)	87
(Increase) decrease in restricted accounts	13,029
Net cash provided (used) by Investing Activities	<u>13,593</u>
Net increase (decrease) in cash and cash equivalents	31,294
Beginning cash and cash equivalents	136,860
Ending cash and cash equivalents	<u>\$ 168,154</u>
Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:	
Income (Loss) from operations	124,345
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:	
Depreciation	35,942
Change in assets and liabilities:	
Payroll liabilities	
Customer deposits	1,249
Net cash provided (used) by operating activities	<u>\$ 161,536</u>

The accompanying report and notes are an integral part of these financial statements.

TOWN OF PAOLI, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Financial Reporting Entity

The Town of Paoli, Oklahoma (Town) operates under the Town Board of Trustees form of government and provides the following services as authorized by its charter: public safety, streets, public improvements, recreation, planning and zoning, and general administration. The Town's financial reporting entity is composed of the following:

Primary Government: Town of Paoli, Oklahoma

Blended Component Unit: Town of Paoli, Oklahoma Public Works Authority

Blended Component Unit

The Paoli Public Works Authority (PWA), an entity legally separate from the Town but having the Town as its beneficiary, is governed by the same board of trustees as governs the Town. For financial reporting purposes, the PWA is reported as if it were part of the Town's operations because its primary purpose is to finance and provide water, sewer, and trash services to the citizens of the Town.

Basis of Presentation

Government-Wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. The Town presently has no fiduciary funds. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds for that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprises fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

TOWN OF PAOLI, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Governmental Funds

The General Fund is the primary fund of the Town and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds are used to account for the proceeds of the specific revenue sources that are either legally restricted to expenditures for specified purposes or designated to finance particular functions or activities of the Town. The reporting entity includes the following special revenue funds, all of which are reported as non-major funds:

Cemetery Care Fund – used to account for 12 ½% of revenue from lot sales. These funds are restricted for purchasing cemetery land or making cemetery capital improvements.

Proprietary Funds

The enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the Public Works Authority Fund. This fund is used to account for the activities in providing water, sewer, and sanitation services to the public. This fund is classified as a major fund.

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental and business-like activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements and propriety fund statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

TOWN OF PAOLI, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Equity Classification

Net position in government-wide and proprietary fund financial statements are classified as net investment in capital assets, restricted and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through state statute.

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraint placed on how fund balance can be spent. The governmental fund types classify fund balances as follows:

Nonspendable fund balance: This classification includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact.

Restricted fund balance: This classification includes revenue sources that are restricted to specific purposes internally imposed by creditors, grantors or imposed by law.

Committed fund balance: This classification includes the portion of fund balance that can only be used for specific purposes imposed by a majority vote of the Town's trustees.

Assigned fund balance: This classification includes a portion of fund balance that has been budgeted by the board of trustees.

Unassigned fund balance: This classification includes a portion of fund balance that has not been restricted, committed or assigned for a specific purpose.

Budget Policy and Practice

An annual budget is submitted to the Town Trustees for review, and public hearings are held to address the budget. Once the budget is approved, the Town Trustees may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

Revenues are budgeted by source, and expenditures are budgeted by department and class as follows: personal services, materials and supplies, other services and charges, and capital outlay. This constitutes the legal level of control. Expenditures may not exceed appropriations at this level. Budget revisions are subject to final review by the Town Trustees.

The budget for the operating funds is prepared on the cash basis. Revenues are budgeted in the year receipt is expected; and expenditures are budgeted in the year that the applicable purchase orders is expected to be paid. The actual financial statements are reported on the modified cash basis.

TOWN OF PAOLI, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

Budget and Budgetary Accounting

The Town adopts annual budgets for the general and proprietary funds.

Cash and Cash Equivalents

For the purpose of financial reporting, cash and cash equivalents includes all demand and savings accounts (excluding restricted accounts) and certificates of deposit with a maturity of three months or less.

NOTE 2 – PROPERTY AND EQUIPMENT:

The Town's modified cash basis of accounting reports capital assets resulting from cash transactions and reports depreciation where appropriate. The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

In the government-wide financial statements, capital assets arising from cash transactions are accounted for as assets in the Statement of Net Position. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable.

Depreciation of all exhaustible capital assets arising from cash transactions is recorded as an expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation.

In the fund financial statements, capital assets arising from cash transactions acquired for use in governmental fund operations, are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets acquired for use in proprietary fund operations are accounted for the same as in the government-wide statements.

TOWN OF PAOLI
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

NOTE 2 – PROPERTY AND EQUIPMENT (continued):

Capital asset activity, resulting from modified cash basis transactions, for the fiscal year ended June 30, 2013 was as follows:

	Balance at June 30, 2012	Additions	Deductions	Balance at June 30, 2013
Governmental activities:				
Fire Department equipment	\$ 199,572	\$	\$	\$ 199,572
Police Department equipment	44,475			44,475
Parks and Recreation	49,441			49,441
Land	5,000			5,000
Buildings	129,212			129,212
General equipment	9,967			9,967
Street improvements	85,979			85,979
Totals	<u>523,646</u>	<u>0</u>		<u>523,646</u>
Less accumulated depreciation:				
Equipment	164,588	14,388		178,976
Buildings	48,389	2,556		50,945
Street improvements	11,811	1,508		13,319
Totals	<u>224,788</u>	<u>18,452</u>		<u>243,240</u>
Capital assets, net	<u>\$ 298,858</u>	<u>\$ (18,452)</u>	<u>\$</u>	<u>\$ 280,406</u>
Business-type activities:				
Land	\$ 4,134	\$	\$	\$ 4,134
Buildings	21,674			21,674
Utility equipment	183,934	16,505		200,439
Water & sewer system	909,404			909,404
Totals	<u>1,119,146</u>	<u>16,505</u>		<u>1,135,651</u>
Less accumulated depreciation:				
Buildings	9,752	2,167		11,919
Utility equipment	138,834	11,030		149,864
Water & sewer system	419,997	22,744		442,741
Totals	<u>568,583</u>	<u>35,941</u>		<u>604,524</u>
Capital assets, net	<u>\$ 550,563</u>	<u>\$ (19,436)</u>	<u>\$</u>	<u>\$ 531,127</u>

TOWN OF PAOLI
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

NOTE 3 – LONG TERM DEBT:

All long-term debt arising from cash basis transactions to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements.

Long-term debt arising from cash basis transactions of governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary funds is the same in the fund financial statements as the treatment in the government-wide statements.

There is no long-term debt at June 30, 2013 as the result of governmental activities. The long-term debt arising from cash transactions, payable from proprietary fund resources consisted of the following:

Refundable deposits reported as a liability within the Statement of Net Position utility deposits.	\$ 14,082
---	-----------

Notes payable for water and sewer improvements:

Promissory note with a local bank. This note carries an interest rate of 6% and monthly payments of \$970. This note matures on August 5, 2014.	\$ 12,282
---	-----------

Promissory note with OWRB. This note carries a variable interest rate currently at 1.23%. Payments are made quarterly through a trustee bank. This note was paid off during the fiscal year ending June 30, 2013.	\$
--	----

The following is a summary of changes in long-term debt for the year ended June 30, 2013:

	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013	Amounts Due Within One Year
Loans	\$ 37,827	\$	\$ (25,545)	\$ 12,282	\$ 10,380
Refundable deposits	12,833	1,249		14,082	
Totals	<u>\$ 50,660</u>	<u>\$ 1,249</u>	<u>\$ (25,545)</u>	<u>\$ 26,364</u>	

The annual debt requirements to maturity for the notes payable as of June 30, 2013 are as follows:

Year Ended	Principle	Interest
6/30/14	\$ 10,380	\$ 1,260
6/30/15	1,902	38
Totals	<u>\$ 12,282</u>	<u>\$ 1,298</u>

TOWN OF PAOLI
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

NOTE 4 – CASH AND DEPOSITS:

The State of Oklahoma allows municipalities to invest in direct obligations of the United States Government, its agencies or instrumentalities; collateralized or insured certificates of deposit; insured savings accounts of savings certificates; or county, municipal or school district direct debt.

Cash and deposits are categorized for level of risk as follows:

- Category 1 – Insured or collateralized with securities held by the City or by its agent in the Town's name.
- Category 2 – Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.
- Category 3 – Uncollateralized

Cash and deposits, categorized by level of risk, at June 30, 2013 are:

	Bank Balance	Category			Carrying Amount
		1	2	3	
Bank accounts	\$ 211,626	\$ 211,626	\$	\$	\$ 211,313
Certificates of deposit	20,287	20,287			20,287
Totals	<u>231,913</u>	<u>231,913</u>			<u>231,600</u>

NOTE 5 – EQUITY CLASSIFICATION:

Equity in government-wide financial statements is classified as net position and displayed in three components:

Investment in capital assets: Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

Restricted net position: Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted net position: All other net assets that do not meet the definition of "restricted" or "net investment in capital assets."

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

TOWN OF PAOLI
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

NOTE 6- PENSION PLANS:

The Town's volunteer firemen participate in the Oklahoma State Firefighter's Pension and Retirement System. Vesting occurs after 10 years of service and payments begin at age 50, or after 20 years of service, whichever is later. The total contribution for the year ended June 30, 2013 was \$1,080 and covered 18 volunteers.

NOTE 7 - FAIR VALUE OF FINANCIAL INSTRUMENTS:

The Town's financial instruments include cash and cash equivalents, certificates of deposits and notes payable. The Town's estimate of the fair value of all financial instruments recorded in the accompanying statement of net position. The carrying amount of these financial statements approximates fair value because of the short maturity of these instruments.

NOTE 8 - RISK MANAGEMENT:

The Town is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town manages this risk through the purchase of commercial insurance policies. Risk management activities are accounted for by fund, and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. There were no claims activity for the year just ended.

NOTE 9 - ESTIMATES:

The preparation of financial statements in conformity with the modified cash basis of accounting used by the Town requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE 10 - EVALUATION OF SUBSEQUENT EVENTS:

The Town has evaluated subsequent events through January 18, 2014, the date which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

TOWN OF PAOLI
SCHEDULE OF FEDERAL FINANCIAL AWARDS
YEAR ENDED JUNE 30, 2013

<u>Program Title/Source</u>	<u>CFDA Number</u>	<u>Receipts/ Revenue</u>	<u>Disbursements/ Expenses</u>
Community Development Block Grant	14460-CDB610	\$ 66,199	\$ 66,199
	13823-CDB609	\$ 41,135	\$ 41,135
Total federal awards			<u>\$ 107,334</u>

TOWN OF PAOLI
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
GENERAL FUND
YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive (Negative)
	\$	\$	\$	\$
Beginning budgetary fund balance	48,107	48,107	48,107	
Resources (Inflows):				
Sales tax	44,000	44,000	45,416	1,416
Use tax	3,000	7,500	9,157	1,657
Franchise taxes	14,500	14,500	15,553	1,053
Alcoholic beverage tax	4,000	4,000	4,544	544
Tobacco tax	600	600	565	(35)
Motor vehicle and gas taxes	5,465	5,465	5,374	(91)
Fines	40,000	40,000	42,223	2,223
Other revenues	8,000	8,000	2,962	(5,038)
Grants/donations			8,294	8,294
Interest	200	200	161	(39)
Total Resources	119,765	124,265	134,249	9,984
Charges (Outflows):				
General Government:				
Materials and supplies	2,000	2,000	943	1,057
Other services and charges	10,000	12,500	12,307	193
Capital outlay				
Total General Government	12,000	14,500	13,250	1,250
Parks:				
Materials and supplies	2,000	500	389	111
Other services and charges	2,000	800	635	165
Total Parks & Recreation	4,000	1,300	1,024	276
Fire:				
Materials and supplies	3,000	3,000	1,452	1,548
Other services and charges	2,000	10,000	10,395	(395)
Total Fire	5,000	13,000	11,847	1,153
Police:				
Personnel services	35,000	51,000	50,344	656
Materials and supplies	13,500	12,500	11,452	1,048
Other services and charges	14,000	14,000	14,220	(220)
Capital outlay				
Total Police	62,500	77,500	76,016	1,484
Street and Alley:				
Materials and supplies	2,000	100	57	43
Other services and charges	8,000	11,200	11,183	17
Total Street and Alley	10,000	11,300	11,240	60

"Unaudited Supplemental Information"

TOWN OF PAOLI
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
GENERAL FUND (Continued)
YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
	\$	\$	\$	Positive (Negative)
Municipal Court:				
Personnel services	1,665	1,665	1,532	133
Other services and charges	2,400	2,500	2,462	38
Total Municipal Court	4,065	4,165	3,994	171
Animal Control:				
Personnel services	100			
Materials and supplies	100	100	24	76
Other services and charges		175	175	
Total Animal Control	200	275	199	76
Town Clerk/Treasurer:				
Personnel services	8,000	8,000	7,867	133
Town Attorney:				
Other Services and Charges	2,000	1,000	917	83
Maintenance:				
Materials and supplies	1,000	300	55	245
Other services and charges	1,000	1,900	1,820	80
Total Maintenance	2,000	2,200	1,875	325
Cemetery:				
Materials and supplies	1,000	1,000	762	238
Other services and charges	9,000	8,000	7,768	232
Total Cemetery	10,000	9,000	8,530	470
Total Charges	119,765	142,240	136,759	5,481
Other Financing Sources:				
Transfer from other funds				
Transfer to other funds			(6,992)	(6,992)
Total Other Financing Sources			(6,992)	(6,992)
Ending budgetary fund balance	\$ 48,107	\$ 30,132	\$ 38,605	\$ 8,473

TOWN OF PAOLI, OKLAHOMA
NOTES TO BUDGETARY COMPARISON SCHEDULE
JUNE 30, 2013

Budget Law

The Town prepares its annual operating budget under the provisions of the Municipal Budget Act. In accordance with these provisions the following process is used to adopt the annual budget:

1. At least 30 days prior to July 1, a proposed operating budget is submitted to the Town Council.
2. A public hearing is held no later than 15 days prior to July 1 for citizen comments.
3. Subsequent to the public hearings but no later than 7 days prior to July 1, the budget is adopted by resolution of the Town Council.
4. The adopted budget is filed with the Office of State Auditor and Inspector.

The level of control at which expenditures may not legally exceed appropriations is the object category level by department within a fund. The Budget Act recognizes the following object categories as minimum legal level of control by department within a fund:

- Personal Service
- Materials and Supplies
- Other Services and Charges
- Capital Outlay
- Debt Service
- Fund Transfers

All transfers of appropriations between departments and supplemental appropriations require Town Council approval. The Mayor may transfer appropriations between object categories within a department without Town Council approval. Supplemental appropriations must also be filed with the Office of State Auditor and Inspector.

Basis of Accounting

The budget is prepared on the cash basis of accounting as applied to the governmental funds in the basic financial statements. Revenues and expenditures are reported when they result from cash transactions. The Town does not budget for depreciation.